

How to Structure a Hospital/Physician ASC Partnership the Right Way

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The ASC Market In The U.S.

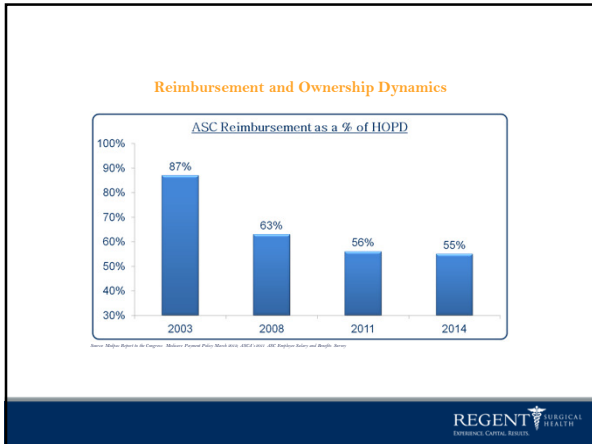
- There are approximately 5,400 ASCs in the U.S.
- 90% of all ASCs have some degree of physician ownership
- About 20% of ASCs have a hospital partner
- While some ASC specialties are being paid better by Medicare, many others are not and, most importantly, ASCs without hospital partnerships are paid less than 60% of what a hospital is paid for the same outpatient surgeries
- Most locations in the U.S. are saturated with ASCs and, for the first time in recent history, net growth of ASCs has stalled
- Payers have all but eliminated out-of-network reimbursements in most markets, thus reducing the profit margin of most ASCs

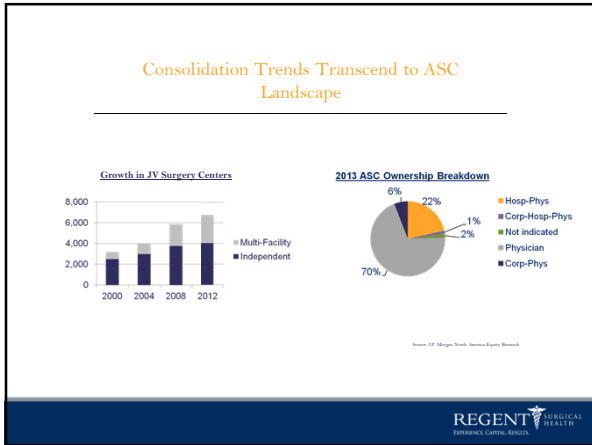


The Trends of ASC Ownership

- Follow the Money
 - Medicare payments for ASCs that are independent versus HOPD
- What alignments of ownership exist today?
- Are ASCs increasing or decreasing nationwide?
- Focusing in on hospital/physician alliances
- What to look for in a hospital partner (this should not surprise physicians)
- A hospital contracting model to consider





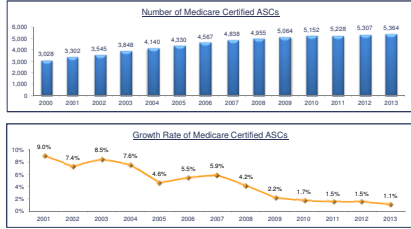


Fewer ASCs are Being Built

- As a result, more acquisitions are being completed, primarily by hospitals and ASC companies; oftentimes with a three-way partnership
- 80% of Regent's new ASCs are partnered with hospitals and surgeons

REGENT MEDICAL HEALTH
EXPERIENCE CAPITAL RESULTS

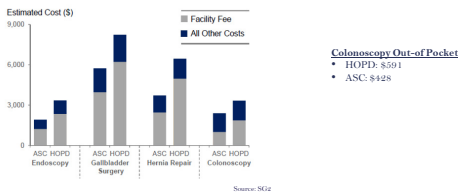
ASC Growth Rates have Stagnated



Source: Report by Regent Medical Health



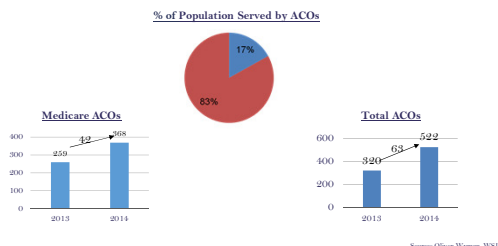
Continued Price Transparency Requirements Will Benefit ASCs over Hospital Surgery Depts.



Source: NEA



Continued Proliferation of ACOs



Source: Oliver Wyman, WSJ



The Economics of a Physician/Hospital/Corporate Management Model

- Medicare pays the ASC the same per case regardless of whether the ASC is part of a JV or not; payment is only higher if it is an HOPD
- Average reimbursement for independent ASCs is between \$1,200-\$1,700 per case, if the ASC is fully contracted
- Average reimbursement for hospital-affiliated ASCs is in the range of \$2,200-\$3,000 per case



A Hospital Can Be a Good Partner if They Have Higher Contracted Rates and They Do Not Require Control of Clinical/Operations

- Less than 20% of hospitals are partnered with physicians, primarily because, in the past, the hospital not only wanted majority ownership, but also control of operations.
- Most hospitals historically only wanted to partner with surgeons if they could own most of the ASC, control it, and worse, manage it. This has changed dramatically the past few years.
- Regent's ownership and governance model is a hybrid that allows the physicians to keep operational control, while providing the doctors a healthy financial result both in a sale and on future earnings. Most of our transactions provided the doctors who sold half of their interests with similar or higher financial returns annually than before the sale.

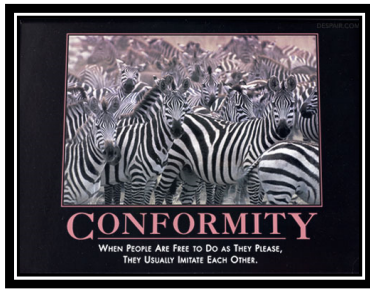


Why Partner With a Hospital?

- Significantly higher payments for cases with the hospital model versus the independent ASC model
- A strategic alliance with a hospital in concert with the aims of healthcare reform models
- Hospitals are now buying practices again and acquiring or developing ancillary services of which ASCs are a primary target
- Provides a wonderful hedge against shrinking surgeon reimbursements in their practices and at their ASCs
- Competitive advantage over ASCs that do not partner with hospitals; non-compete clauses



Why Partner?



Which Model Do We Usually Recommend?

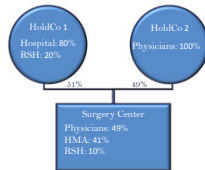
- **Hospital Contracting Model**
 - If it is structured correctly, the payments per case are at least 30% higher than an independent ASC and, at the same time, it provides protection for the doctors that the hospital cannot compete with them in other transactions and allows the doctors to maintain daily clinical and operations control over the facility.
 - The hospital forms a strategic alliance with select surgeons, while minimizing their financial investment and risk and, at the same time, prevents surgeons from competing with them in other transactions.

Typical Ownership and Governance Model

Governance Structure

- Hospital has 2 board seats, Physicians have 4 seats, and Regent has 1 seat
- Physicians are Class A shareholders, while Hospital and Regent represent Class B shareholders
- Hospital controls Class B and majority vote
- Physicians retain voting control on clinical issues
- Maximizes physician financial upside while maintaining hospital's earnings consolidation ability


Hospital Contracting Model



Regent Business/Partnership Model


Governance

- Hospital votes Regent's ownership to demonstrate "control" on key legal and financial issues.
- Results in ability of the ASC to obtain "hybrid" payer contracted rates which are less than HOPD but more than independent ASC rates.
- Physicians maintain clinical control of operations even as minority owners, making it attractive to participate in these partnerships.




Sample Control Breakout

<p>Physicians</p> <ul style="list-style-type: none"> • Medical Executive Committee recommendations • Selection of anesthesia providers • Daily operations decisions that require Board approval • Approval of physician members that go to partnership vote • Clinically-related operating policies and procedures • Approval of equipment purchases as part of budget or are limited to a certain monetary value 	<p>Hospital</p> <ul style="list-style-type: none"> • Budget • Strategic decisions • Disposition of assets • Super majority rights related to types of procedures conducted
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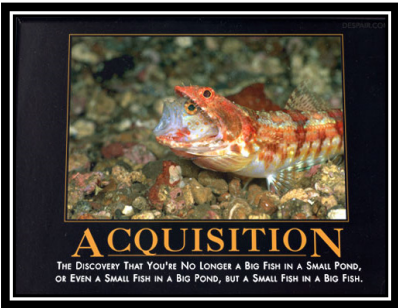


When Is It Best to Use Our Recommended Model?

- When the doctors trust the local hospital
- In an over-saturated, competitive ASC market
- In a community where payors squeeze the independent ASCs on price and out-of-network facilities have to change to a contracted model
- In a market where the hospital of choice is accustomed to joint ventures with doctors
- Where hospitals are interested in partnering with doctors
- In a market where the hospital has a strong track record of negotiating favorable contract rates and also has contracting power
- In an existing ASC, when the ASC has matured and/or does not see a significant increase in profits in the future
- If the local surgeons can utilize this model to form a strategic alliance with the local hospital of choice




The "Dreaded" Word ACQUISITION



REGENT SURGICAL HEALTH
EMERGENCY CAPITAL RESULTS

The HOPD Model
another model that works well in some situations...for now

HOPD Model



Structure

- Hospital owns 100% of ASC, enabling HOPD rates
- Surgeons and management company engaged to provide operational and clinical oversight

REGENT SURGICAL HEALTH
EMERGENCY CAPITAL RESULTS

**Case Study: Knightsbridge Surgery Center
Columbus, Ohio**

Background

- Founded in 2001, Knightsbridge Surgery Center (KSC) did not produce returns under initial management company
- Engaged RSH in 2004, which turned around facility to highly profitable through negotiating with payors and canceling inadequate contracts

Problem


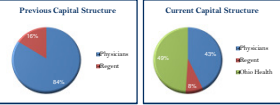
- Payor strategy loses momentum, diminishing returns
- OhioHealth seeks partnership yet physicians seek retention of clinical control

Solution

- Hospital acquires 49% stake but has 50% vote and tiebreaker rights on key management decisions
- Hospital investment predicated on attainment of performance benchmarks

Result

- Meaningful liquidity event for physicians' 49% interest
- Approximately 133% annual returns for OhioHealth
- Net Revenue Per Case 2x-3x that of ASC regional avg.

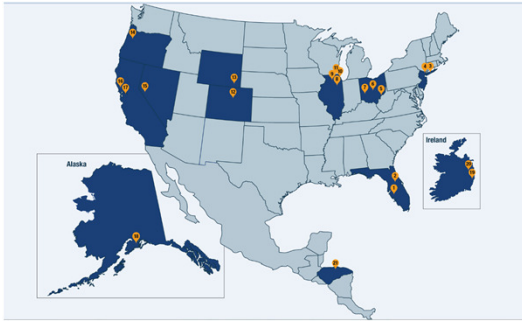
REGENT SURGICAL HEALTH
EMERGENCY CAPITAL RESULTS

Summary Of Regent

- Founded in 2001; Headquartered in Chicago
- 18 facilities; 33 owned and managed historically
- Always a minority owner and manager
- 14 of 18 facilities are with hospitals; 2 new hospital /surgeon partnerships will be implemented in the next three months
- Our investment in partnerships represents our own money—no outside investors, no bank financing. We carefully scrutinize all our acquisitions based on their ability to obtain a strong ROI for Regent, our hospital and doctor partners
- Partnerships are not designed to be sold: Regent does not have investment bankers or venture capitalists requiring a sale a few years later. All facilities have to be profitable on an operational basis
- All of our facilities are clinically and financially successful
- We are noted in the industry as having superb management skills with a strong focus on physician relations and successful clinical outcomes



Surgery Center Partnerships Nationally and Internationally



Regent Facilities/Partners

- | | | |
|--|---|--|
| <p>1. Center for Specialized Surgery
Ft Myers, FL</p> <p>2. Surgery Center of Mount Dora
Mount Dora, FL
<i>Partnered With Lehigh Hospital</i></p> <p>3. Robert Wood Johnson Endoscopy Center
East Brunswick, NJ
<i>Partnered With Robert Wood Johnson University Hospital</i></p> <p>4. Ambulatory Surgical Pavilion at Robert Wood Johnson
New Brunswick, NJ
<i>Partnered With Robert Wood Johnson University Hospital</i></p> <p>5. Marietta Surgery Center
Marietta, OH
<i>Partnered With Marietta Memorial Hospital</i></p> <p>6. Edgemoorbridge Surgery Center
Columbus, OH
<i>Partnered With OhioHealth</i></p> <p>7. Medical Center at Elizabeth Place
Dayton, OH
<i>Partnered With Kettering Health System</i></p> | <p>8. Palm SurgCenter
Palm Bay, FL
<i>Partnered With Palm Community Hospital</i></p> <p>9. Midland Surgical Center
Spokane, IL
<i>Partnered With Kirkwood Community Hospital</i></p> <p>10. Ravine Way Surgery Center
Glenview, IL
<i>Partnered With Northwestern University Health System</i></p> <p>11. H. Sports Medicine and Orthopedic Surgery Center
Morris Grove, IL</p> <p>12. Loveland Surgery Center
Loveland, CO</p> <p>13. High Plains Surgery Center
Cheyenne, WY
<i>Partnered With Cheyenne Regional Medical Center</i></p> <p>14. Providence Health System/Portland
Portland, OR
<i>Partnered With Providence Health System</i></p> <p>15. Surgery Center of Reno
Reno, NV</p> | <p>16. Endoscopy Center of Lodi
Lodi, CA
<i>Partnered With Lodi Memorial Hospital</i></p> <p>17. Lodi Outpatient Surgical Center
Lodi, CA
<i>Partnered With Lodi Memorial Hospital</i></p> <p>18. Surgery Center of Wasilla
Wasilla, AK</p> <p>19. Neurosurgery Ireland at Heritage-Medical Clinic
Dublin, Ireland
<i>Partnered With Heritage Medical Clinic</i></p> <p>20. CyberKnife Ireland
Dublin, Ireland
<i>Partnered With Heritage Medical Clinic</i></p> <p>21. Stem Cell Clinic
Routon, Honduras
<i>*Under Development
Partnered With Hospital Conces</i></p> |
|--|---|--|



The Regent Approach

- Always a minority owner and manager
- Invests capital side-by-side with hospital and physician partners
- Partnerships are not designed to be sold; focus is long-term success
- All facilities demonstrate profitability on an operational basis
- All facilities are clinically and financially successful
- Recognized in the industry as providing superb management services with a strong focus on physician relations and successful clinical outcomes



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